

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RESTRUCTURING FIRST-CLASS MAIL PARCEL
PRODUCT OFFERINGS

Docket No. MC2011-22

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-4 OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(March 24, 2011)

The United States Postal Service hereby provides its responses to Questions 1 through 4 of Chairman's Information Request No. 1, issued on March 18, 2011.

Answers were sought no later than today. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1

Please compare the Lightweight price category of Parcel Select provisionally moved to the competitive product list by Order No. 689 and the proposed Lightweight Commercial Parcels product. At a minimum, please include the following comparisons in the response:

- a. modes of transportation;
- b. service standards;
- c. deferability;
- d. content requirements or restrictions; and
- e. mail entry requirements.

RESPONSE:

- (a) The pieces within the Lightweight category of Parcel Select will be moved entirely by surface transportation while the pieces within the proposed Lightweight Commercial Parcels product will be moved by a combination of surface and air transportation.
- (b) The service standards for the Lightweight category of Parcel Select will be 3 to 22 days (3 to 10 days within the 48 contiguous states) while the service standards for the proposed Lightweight Commercial Parcels product will be 1 to 5 days (1 to 3 days within the 48 contiguous states).
- (c) The Lightweight category of Parcel Select will be deferrable by one day while the proposed Lightweight Commercial Parcels product will not be deferrable.
- (d) Both the Lightweight category of Parcel Select and the proposed Lightweight Commercial Parcels product will have content restrictions that specifically prohibit them from containing "letter" materials.
- (e) The Lightweight category of Parcel Select mailings must be entered in

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bulk through a business mail entry unit, while the pieces within the proposed Lightweight Commercial Parcels product can be entered as single pieces within the collection mail stream or in bulk through a business mail entry unit.

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Question 2

The Postal Service proposes to remove commercial First-Class Mail Parcels from the market dominant First-Class Mail Parcels product. Only the retail price categories will remain within the market dominant First-Class Mail Parcels product.

- a. What effect will moving commercial First-Class Mail Parcels from the First-Class Mail Parcels product have on the cost coverage for the remaining First-Class Mail Parcels product?
- b. If the effect is for the cost coverage to fall below 100 percent for the remaining First-Class Mail Parcels product, please explain what steps the Postal Service will take to address this issue.

RESPONSE:

- (a) The cost coverage for the remaining First-Class Mail Parcels product is estimated to be 91 percent. See workbook FCM_CommParc_Analysis_ChIR1.xls, sheet ChIR1, cell I16. The original model for Commercial First-Class Mail Parcels has been expanded to include costs for pieces entering through the collection mail stream. A minor inconsistency regarding the indicia types to include within the retail and commercial groups is corrected in the revised workbook FY2010FCMCommPrclsRevperPc_ChIR1.xls; see cells I18:J18.
- (b) In light of Order No. 536, Docket No. RM2009-3, in which the Commission concluded that the product level is not the appropriate level for applying pricing standards, it is not clear to the Postal Service that it would need to take steps to address the issue. Nonetheless, because there is flexibility within First-Class Mail to raise prices for particular products by more than the price cap provided the entire class's increase is limited to the price cap, the remaining First-Class

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Mail Parcels product could be brought to 100 percent cost coverage through above average price increases.

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Question 3

Please refer to "FY2010FCMCommPrclsRevperPc.xls" and "FCM_CommParc_Analysis.xls."

- a. For commercial First-Class Mail Parcels, please describe the allowable entry methods, window, carrier, acceptance unit, etc., and the volumes entered through each method.
- b. For the proposed Lightweight Commercial Parcels, please describe the allowable entry methods, window, carrier, bulk mail acceptance unit, etc., and the volumes entered through each method.
- c. Please explain the reasons for any differences between the responses to questions a. and b. above.
- d. For the proposed Lightweight Commercial Parcels that are entered other than through a bulk mail acceptance unit, please provide the total costs per piece for each entry option. Please provide a spreadsheet showing all calculations.

RESPONSE:

- (a)-(c) It is anticipated that the proposed Lightweight Commercial Parcels product will have the same allowable entry methods as commercial First-Class Mail Parcels, meaning that Lightweight Commercial Parcels mailpieces will be entered either through the collection mail stream (e.g., deposited in collection boxes, picked up by carriers, or tendered over a retail counter (pre-paid pieces only)) or in bulk through business mail entry units. In FY 2010, approximately 66 percent of commercial First-Class Mail Parcels were entered through the collection mail stream, while approximately 34 percent were entered in bulk through a business mail entry unit. It is not anticipated that this will be significantly different for the proposed Lightweight Commercial Parcels product.
- (d) See FCM_CommParc_Analysis_ChIR1.xls, sheet ChIR1 for calculations.

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For bulk mail entry, additional costs have been added for work at the Bulk Mail Entry Units (BMEU), but costs for entry by blue box, carrier collection or retail window have been excluded. Bulk-entered pieces will also avoid outgoing processing and the associated costs at post offices and cancellation and/or collection mail separation units at plants. However, models to estimate these cost avoidances for First-Class Mail Parcels do not exist, so these avoidances are not reflected in this analysis. Absent additional cost avoidance, total FY 2010 costs per piece are estimated to be \$1.82.

For parcels entered by blue box or carrier, additional costs have been added for carrier work, but costs for BMEU or window entry have been excluded. Total costs per piece are estimated to be \$1.92.

For parcels entered at the window, additional costs have been added for window work. These are based on window costs per piece with PVI but have been adjusted since commercial pieces will be prepaid and do not need to be weighed or rated. With these adjustments, total costs per piece are estimated to be \$2.06.

The cost of all Commercial First-Class Mail Parcels is the weighted average of the costs by using the percentages of volume by entry mode.

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Question 4

Commercial First-Class Mail Parcels weigh more per piece than First-Class Mail Parcels. Please de-average transportation cost and any other weight-related cost and incorporate the de-averaged cost into the unit cost for commercial First-Class Mail Parcels such that the unit cost of commercial First-Class Mail Parcels reflects its higher weight per piece.

RESPONSE:

In FY 2010, the average ounces per piece for the two First-Class Mail Parcel groups are almost identical – 5.26 ounces for retail, and 5.24 ounces for commercial. See workbook FY2010FCMCommPrclsRevperPc_ChIR1.xls, cells I21:J21. Because the difference in weight per piece is trivial, there will be no significant differences in weight-related costs, including transportation costs.

While heavier parcels weighing between 13 and 16 ounces will become part of Commercial First-Class Mail Parcels effective April 17, 2011, data from FY 2010 is not available for these additional parcels. Projected costs for a similar competitive product were recently filed under seal in amendments to Docket Nos. CP-2009-31 and CP-2009-38.¹

¹ See the cost-per-piece calculations contained in the financial workpapers filed under seal in support of the Notice of United States Postal Service of Change in Prices Pursuant to Amendment to Priority Mail Contract 7, Docket No. CP2009-31 (Feb. 9, 2011) and the Notice of United States Postal Service of Change in Prices Pursuant to Amendment to Priority Mail Contract 12, Docket No. CP2009-38 (Feb. 9, 2011).